Postal Regulatory Commission
Submitted 3/1/2018 2:33:01 PM
Filing ID: 104004
Accepted 3/1/2018

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products	Docket No. RM2017-3

COMMENTS OF
THE AMERICAN CATALOG MAILERS ASSOCIATION, INC. (ACMA)
(March 1, 2018)

The American Catalog Mailers Association participated in joint comments from the mailing industry at large and supports the points raised therein. These comments amplify ACMA's concerns, expound on issues of import to catalogs and most other forms of mail, and react to the Commission's request to receive proposals for alternatives to its Proposal contained in Order 4258.

In our comments during last year's review period as well as our other comments with other mailing groups in the current proceeding, we have already laid out our support for the indefinite continuation of a price cap system. Therefore, we will focus these comments primarily on our suggested alternatives to the PRC Proposal and the root causes as to why we believe the Proposal cannot achieve the Commission's otherwise good intentions: stabilizing the Postal Service's finances and satisfying its needs for the next several years.

SUMMARY

These comments address the following: (I) to demonstrate that the PRC Proposal represents a rash attempt at “saving” the Postal Service when the Service is not in dire peril of going out of business; (II) that the Proposal is too aggressive when aggressive intervention is not called for; and (III) ACMA’s suggested alternatives to the PRC Proposal.

I. THE PROPOSAL REPRESENTS A PREEMPTIVE ATTEMPT AT ‘SAVING’ THE POSTAL SERVICE WHEN THE SERVICE IS NOT GOING OUT OF BUSINESS.

It’s no secret that the rate cap approach was *the* central feature to garnering support from the mailing industry and others for the Postal Accountability and Enhancement Act (PAEA). But USPS spending and cost increases during this past 10-year “test period” has clouded the picture considerably, especially in light of volume reductions. Further, the past 10 years have seen the lowest inflation rate in recent memory, thereby minimizing the revenue authority.

By “clouded,” we mean that in its Proposal, the Commission has not fully addressed the causes of why the CPI-capped rate-setting system has not completely worked. Other inflation-impacted and favorable financial adjustments are to be expected in more typical inflation environments. What’s more, the agency’s cash flow is a better measure than a balance sheet riddled with Congressional impositions.

We see no evidence of dire financial implications from recent Postal Service financial results. Reports that it has “only” [some number of] days of cash on hand assume all further revenue flows stop totally at once. This is not at all likely. The

Proposal also overlooks the fact that the Service has the "world's friendliest banker" in the U.S. Treasury, and has experienced no practical implications of financial defaults. We support the choices made here by postal management. Strategic defaults are necessary in an environment of Congressional inaction. The Postal Service's balance sheet is littered with a history of overcharges by federal government agencies of USPS ratepayers to bring more funds into the U.S. Treasury. From a cash flow perspective, the Postal Service is still able to meet its ongoing financial needs and has amassed billions of cash on hand. Unless and until the situation worsens, the Commission should not take aggressive steps to intervene, especially given widespread concerns that the rate hikes embodied in the PRC Proposal will materially impact mail volumes and future revenues.

II. THE PROPOSAL IS TOO EXTREME WHEN EXTREME INTERVENTION IS NOT CALLED FOR.

The Proposal removes a powerful incentive for cost reduction and cost leadership at the Postal Service. We appreciate the Commission's concern regarding the financial path the Postal Service is headed down. However, this is a multi-dimensional issue with a number of root causes, not the least of which is that mail volume has fallen by nearly a third since 2006, while total expenses have remained largely unchanged at $72 billion (not adjusted for modest inflation during that time).

By providing additional rate authority and thereby the prospect for above-inflation postal rate increases, the Commission removes the intense financial pressure required for management and labor to reduce the cost of operations. Instead, we believe the regulator should encourage a continued drive to cost efficiency and even cost leadership, and continuing or greater progress on using technology to innovate, reduce cost, or improve the value of mail.

We concur that the current path is not sustainable, but simply adding to rates given all the other issues is not helpful while removing an important motivation essential to achieving long term sustainability. Instead, we believe the Commission's continued vigilance, encouragement, and sponsorship are required to work out of the current predicament. If there's to be any additional rate authority, it should be of a defined amount to solve clearly urgent problems; it should be limited in time and scope; it should have clear stipulations and conditions that help move the agency to a more sustainable path; it should not imperil the entire ecosystem on which a ratepayer-paid public utility is currently based.

Raising rates well beyond what has been allowable since PAEA was enacted, when it's clear that mail volumes will continue to fall, is a huge mistake. We have some proof of this: In February 2018, the ACMA deployed a catalog industry survey asking several questions assuming the PRC Proposal is being implemented *as is*. Respondents control just under 2 billion pieces of catalog mail annually and range from companies mailing half a million catalogs to well over half a billion catalogs in yearly circulation. Ninety percent said they are “extremely concerned” with the Proposal. When asked how their catalog mail volumes would be affected, 90% said they would decrease their volumes by selective targeting, 45% indicated they would mail less frequently, 80% said they'd expect to use more digital marketing as a replacement for mail, and 25% offered a range of additional options, such as reducing size or weight, moving to another mail format, or considering alternative delivery methods.

These results are consistent with past inquiries we have made of catalog marketers. Our members have warned us for years that any excessive postage increases, such as those in the Proposal, will cause them to cut back their catalog mail volume. These survey findings clearly illustrate the need for the rate hikes in the Proposal to be changed.

This is a situation largely created by Congress requiring a Congressional fix. It is widely believed that Congress does not act without a crisis driving it so removing the crisis actually reduces the likelihood of reform that addresses a mess largely of Congressional creation. Aggressive action by the PRC actually usurps from Congress the responsibility to insure a future of the post. A wiser course might be to closely monitor the situation and make a determination to act should the alternative outcomes appear to be worse.[1] The Commission might also use its offices to convene a broad-based dialog focused on the long-term path to sustainability of the Postal Service that not only includes all stakeholder representatives but also explicitly sets forth that no options will be off the table in the discussions. Such work surely will not provide instant gratification, but it may lead to a series of options that find more acceptable alternatives than the Commission's sole remedy of sharply increased rates.

[1] But this is not to say that the Commission should let the USPS off the hook easily. Rate hikes the industry views as crippling should be a last resort only after all other plausible options are exhausted, and only in the presence of evidence that cost efficiency and quality have been relentlessly pursued.

III. ADDITIONAL ALTERNATIVES TO THE PROPOSAL

The ACMA's overriding impression of the Proposal is that it fails to address the Service's most fundamental needs. As we demonstrate above, the cost of patching up the Service's financial problems with a series of above-inflation price hikes will be substantial reductions in catalog mail volume. Such rate hikes don't amount to a mere "band-aid," because they won't provide even a quick fix for the Service. What's more, the Proposal's price increases take pressure off management to continue to drive for improvement or innovation and do little to incent Postal Service management to boost its cost effectiveness further.

We urge the Commission to re-think the Proposal with the following in mind: With volume and revenues continuing to decline, the Postal Service needs a plan for removing excess costs and delivering the mail at an increasingly improved unit cost[2] of delivery.

The Commission may be asking what its own role in this should be. A revised Proposal should monitor, encourage, and question the Postal Service's plans. Such a plan should consider realistic mail volumes and present right-sized expenses to match. If mail volume and revenues are to continue declining, expenses need to decline with them. This also puts a premium on continued efficiency improvement with a goal of

---

[2] We find the Postal Service's admission that it cannot quantify the results of investment or improvement activities unacceptable in its entirety. Without this, no assurance of progress to goal can be measured. This is the type of issue the regulator must attack, and through high-level dialog of all industry participants, must insure. On this basis alone, further rate authority must be denied unless and until the Postal Service is able to measure the impact of its improvement activities and investments. No entity is deserving of further resources if it cannot show plainly that the means it has already been given are being put to good use.

delivering less mail at a lower unit cost, a tall order under the best of circumstances. Raising the bar on performance, the Postal Service might endeavor to become a cost leader in its activities, demonstrating it can turn its considerable delivery muscle into a stronger network to partially offset volume loss and workload expansion.

The Commission might encourage the Postal Service to demonstrate cost leadership. As a $70 billion-plus enterprise, is it too unreasonable to expect the Service to become the model of efficiency? We think not. If a government sponsored enterprise does not aspire to cost leadership, it may exhibit the reverse: more costly than non-government alternatives. Were this the case, perhaps those who call for radical changes including partial or complete privatization have a fair point. Why must America be saddled with inefficiency especially when it is being privately funded? We feel it best that the Commission tie further rate authority to improvements in the Service's cost position, innovation and available alternatives.

As part and parcel of this, at the time of this filing with no supervisory role being performed from an absent USPS Board of Governors, the Commission is among the best suited to review and opine on postal management plans. This is not to suggest the regulator take on the role of a board of directors, but that it clearly signal additional rate authority is off the table until real expense side leadership is manifest.

In revising its Proposal, the Commission also must take into consideration where Congress currently is in developing bills to reform the Postal Service. But Congress has proven time and again that only major crises fuel real actions. Postal reform bills have stalled throughout the 2010s in part due to the absence of dire pressure for action. The

Commission should not artificially solve for the financial pressures of the Postal Service by providing additional rate authority that makes it even less likely Congress will do its part in reforming the Postal Service.

That kind of pressure will simulate not only congressional action, but spur management to evaluate new approaches with potentially greater cost improvement. Little progress is made on change absent an intense and continuing motivation. A broader view is needed, one that also includes the scope of services and mission. Consider the following:

- When resources are finite and dear, it forces a harder review of the overall mission and responsibilities requiring tough choices to be discussed that otherwise would not be considered.
- Increasing revenues, however, makes consideration of tough issues more difficult; rocks in the swamp are visible only when the water level is lowered.

Therefore, additional rate authority is appropriate only when the agency is in clear and present danger of ceasing operations, not in response to what are largely congressionally-imposed constraints and requirements. The Commission should require the Service to focus on the value equation for mailers who cannot be forced to mail but rather, are attracted to mail's value proposition compared to other alternatives. Increasing the value of mail[3] to the customer who pays for it will result in greater mail volumes. With this in mind, the revised approach should also foster a dialog on how interests between stakeholders might be better aligned. Creative approaches and hard

[3] Space does not allow a full discussion of how the value of mail might be increased further but it is important to note that for most mailers, the price they are willing to pay correlates positively to the value received. Thus, a path to creating acceptably higher rates is to create an increased value proposition. Real attention is needed here.

work are needed, not realignment that impairs one party while letting others off the hook.

IV. CONCLUSION

Preemptive intervention is not warranted at this time and will prove to be counterproductive. If catalog mail can be offered as an example here, just consider our survey results. Continued vigilance and attention to the situation is appropriate. The Commission retains the opportunity to intervene aggressively at any future point and time when needed. Additional consideration must be given to a sustainable path for the Postal Service as well as a reconsideration of demands and limitations placed on postal management. The Commission should consider how it might play an optimal role in this debate. It should elect to maintain the current and beneficial pressure created through the CPI cap and signal to all that meaningful progress on issues raised here is critical to a viable future for the Postal Service and all who rely on it.

Respectfully submitted,

Hamilton Davison
President & Executive Director
American Catalog Mailers Association
PO Box 41211
Providence, RI 02940-1211
800-509-9514
hdavison@catalogmailers.org